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COMMENTARY

Muddled and Maddening

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Now that his handlers want John Kerry to change weapons, in the midst of a presidential duel, from Iraq to the economic rapier, it's safe to say that they think this sets him up to inflict a fatal wound. That may well be so. Yet on trade policy, on which Howard Dean cut his teeth without gaining a cutting edge and Dick Gephardt made his last stand, one can only gasp at Sen. Kerry's gaffes.

How does one forgive him his pronouncements on outsourcing, and his strange silences on the Doha Round of multilateral trade negotiations? Indeed, Sen. Kerry, whose views and voting record were almost impeccable on trade, has allowed himself to be forced into such muddled and maddening positions on trade policy that, if one were an honest intellectual as against a party hack, one could only describe them as the voodoo economics of our time.

There seem to be three arguments by Sen. Kerry's advisers that have prompted this sorry situation for the Democrats: First, that the Bush trade policy is no better; second, that electoral strategy requires that Sen. Kerry act like a protectionist, while indicating subtly (to those that matter) a likelihood of freer trade in the White House; and third, at odds with the previous argument, that the U.S. does indeed have to turn trade policy around toward some sort of protectionism (and restraints on direct investment abroad) if it is going to assist workers and reward the unions. Each argument is flawed.

- Mr. Bush is no better. Yes, there are commonalities on trade in both parties, not just during the elections. They both espouse "free and fair trade." But, except for NGOs like Oxfam -- which profess trade expertise that they manifestly do not possess, and do great damage in consequence to poor nations -- every informed trade expert knows that when "fair trade" is invoked, it is code for (unfair) protectionism in the shape of anti-dumping actions against successful rivals, often from the developing nations.

Both parties, and both candidates, have backed actions against "unfair" trade. The 2004 Democratic platform promises that Sen. Kerry will create new jobs by fighting for "free, fair and balanced trade," whereas the White House Web site promises that "Free and fair trade helps create jobs by opening foreign markets to American exports." Both candidates ask for "level playing fields" or else tough retaliatory action -- pretending of course that the U.S. is on higher ground morally but on lower ground in the war for markets -- and that the other party is soft while it will act tough.

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The truly disturbing sin of commission of the Kerry campaign, however, has been to surrender to the hysteria over "outsourcing." And he has made at least two howlers that would make my first-year students blush a shade of beetroot.

First, outsourcing fears have arisen over what economists call "long-distance," or arm's length, services -- which can be transmitted over "snail-mail" or over the Internet without the provider and user of services having to be in physical contact. Call-answer services operating in Manila instead of in Minneapolis; the reading of X-rays taken in Boston, via digital transmission, by radiologists in Bangalore; and tax filings prepared in Mumbai rather than in Manhattan, have produced a scare that service jobs will move offshore.

But all available estimates show that, so far, the offshore outsourcing of arm's length services has resulted in a loss of no more than 100,000 jobs annually. It is ludicrous to be alarmed by this minuscule number. One ought to face with equanimity a figure even tenfold, although the best estimates predict the annual flow over the next decade to double at worst. Nor should one forget that the U.S. itself benefits from others outsourcing to it in medical, legal, accounting, teaching and other high-value arm's-length services. The net effect on jobs due to such outsourcing is almost certainly a net gain for the U.S.

Second, Sen. Kerry has muddled matters by confusing the outsourcing of services with the altogether different issue of direct foreign (i.e. equity) investment by U.S. firms. Dell may outsource problem-solving calls to Bangalore but may buy those services from an Indian firm like Infosys: that is simply trade. But direct investment is different; it occurs typically when a firm in Nantucket closes shop and moves production to Nairobi.

Sen. Kerry went so far as to describe firms that invested abroad as "Benedict Arnolds." The silliness of this charge puts him in the same camp as Lou Dobbs, whose outpouring against sundry forms of imports and outward investment is a farrago of nonsense, offered by him with a list (on his CNN program) of traitor firms that "ship jobs abroad." As I contemplate his slip of a book titled "Exporting

America," and subtitled "Why Corporate Greed is Shipping American Jobs Overseas," I think to myself: If firms that buy cheap abroad suffer from "corporate greed," is Mr. Dobbs -- whose girth and success doubtless suggest that he buys for his supper French brie and Burgundy rather than Milwaukee beer and Kraft cheese -- to be accused by the same logic of "shipping jobs abroad" because of "Personal Gluttony"? (What is sauce for the corporate goose must be sauce for the journalist gander.)

• *The Doha Round.* Sen. Kerry is also not good news for the critical multilateral trade negotiations in the Doha Round. Where President Bush has articulated strong support for it, Sen. Kerry has ducked the issue. Then again, on top of the strange commitment to have a 120-day review of existing trade agreements (which presumably include the WTO), the Kerry-Edwards demand that labor and environmental requirements be included, with sanctions, in old and new trade agreements, clearly aims a dagger at the heart of Doha.

For while little countries doing bilateral Free Trade Agreements with us will roll over and accept almost any conditions in exchange for preferential access to our huge market, this will simply not happen with the large developing countries that see, correctly, the protectionist hand of lobbies, including unions, behind the demands for labor and certain environmental requirements. There is no way that the mildly left-leaning India of Sonia Gandhi, and even the Brazil of Lula -- indisputably a more credible union man than any we produce -- will turn away from their longstanding objections and accept such restrictions, either in bilateral FTAs or at Doha. Has Sen. Kerry really thought this through? Also, a Kerry administration will have to cope with its protectionist and anti-trade constituencies which demand such restrictions, and with its own trade-unfriendly rhetoric. And if the Doha Round negotiations are to continue credibly through 2005, a President Kerry will face the problem of the expiry of fast-track authority extension beyond mid-year. It is hard to imagine how he will cope with this problem.

• *Can Kerry Turn Free Trader?* In the end, Sen. Kerry cannot totally jilt his constituencies. He will have to claw his way to freer trade, making him a greater hero in a war more bloody than Vietnam. The unions, in particular, are going to insist on their reward. This is forgotten by the many pro-trade policy advisers and op-ed columnists who argue privately that we should not worry -- because Sen. Kerry is a free trader who has merely mounted the protectionist Trojan Horse to get into the White House. The irony of this last position is that it is, in fact, too simplistic. Besides, it suggests that when President Bush does the same thing, he's lying, but that when Sen. Kerry does it, it's strategic behavior! Is it not better, instead, for us to tell Sen. Kerry that his trade policy positions are the pits -- before he digs himself deeper into a pit from which there is no dignified exit?

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